NEW SERVICE OPPORTUNITIES

"Big Dogs Need Big Bones"

Prepared for

IBM

March 29, 1996

Prepared by

INPUT

IBM SERVICES OPPORTUNITY PIPELINE

Opportunity	12 Mos?	Mkt Size	Def (a)	Diff (b)	IBM Suit.	Other
INTERNET-RELATED						
• Help desk (general)	?					
• Travel mgt (corp.)	No		?			
• Entertainment - new forms	?	Lg	??		?	
• Recovery services						c
• "Web Ranch" hosting services		?		?		
• Health network			??			d
• Electronic retailer		Lg		??	?	
• Internet "telephone company"	?	Lg	?			e
• Convert traditional processing services	?	Lg	?	?		
• Full service ad agency	?	Lg	?	?		
• Intelligent agent agency		?				f
OUTSOURCING						
• Customer management - cross industry (orders, inquiries, problem resolution)	?	Lg				
• Billing and collections -- customized by industry/process	?	Lg		?		
• Contract manufacturing	?	Lg	?	?	?	

a = Coherent <u>definition</u> of service required
b = Can a new entrant provide <u>differentiation</u>?
c = Now moot -- 3/26 IBM announcement
d = IBM already offering some services
e = Profitability questionable
f = In "Internet Gatekeeper"; may not be separate business

"Internet Gatekeeper"

Concept:

Become the dominant provider of all services that can be linked to an Internet directory/index. ("If you want to use the Internet, you use the IBM Gateway")

Description:

The core of the offering will be a complete directory/index to the Internet and World Wide Web. The core is necessary but not sufficient: There is already considerable competition in directories/indexes (Yahoo, etc.) and barriers to entry for offering the core directory/indexing service are low.

The first vendor to offer a comprehensive set of related features and functions will have a pre-eminent position in the market and be extremely hard to dislodge (see "Competition", below). A non-exhaustive list of linked capabilities includes:

- A constantly improving Internet directory/index (needed to keep up with competitive products)
- Analogous intranet products designed and installed on a custom basis
    - Can link to and/or can be partially integrated with public directory/index
    - Can utilize InterNotes
- Comprehensive product/service directories (with hot links and small seller transaction fees; commissions on sales)
- Embed/link to product specification databases. Include hot link referral to sellers (with a small transaction fee and commissions on sales)
- Foreign language machine translation capabilities (fee based)
- Event calendars and ticketing
- Buyer requests build up database of wants and needs -- a type of intelligent agent. (Buyer-generated target marketing.)
- IBM electronic commerce support services and products as a companion offering (but probably at arms-length
- Incorporates functions of infoSage and infoMarket

From a customer standpoint the service should have multiple views and, as needed, look like:

- Meta-yellow pages
- Meta-white pages
- Consumer goods catalog (electronic mall)
- Product specification sheets
- Comparison buying service (business and consumer)
- "Library" catalog
- News and information service
- Professional development roundtable/training
- Direct marketing

Who Is The Customer?

- Business users are the most attractive targets, from a revenue generation and natural fit with IBM
- Consumer Electronic Commerce customers could be a close second because of potential size of transaction fees from sellers
- Other users are <u>more</u> than "necessary evils":
    - Internet users often wear several hats (surfer, consumer by night; business user during the day
    - More importantly, dominance is all or nothing.

Geographic Differentiation:

- Because of the preponderance of English on the Internet, initial targets will be skewed to those with adequate English language skills
- Machine translation features will open up new markets, which will bind them even more tightly to the gateway than other types of users.

Competition (Current/Likely):

There is much "plain vanilla" competition in directories/indexes (Yahoo-like). Two graduate students with a borrowed server can play in <u>this </u>part of the market.

Differentiation and long term success will come from add-ons. If undisturbed, current suppliers will probably add features incrementally. Result: All offerings will be suboptimal and none will take off.

The first firm to take a strong lead will continue to pull ahead and will win. Taking the printed Yellow Pages as the model, there is only room for one primary provider (Why look at several subsets, when one stop has it all?) Perhaps this is even a natural monopoly (in which case non-favoritism would be an important attribute).

Entry Options:

- Acquire a current supplier, primarily for time to market savings. Downside: Core offering is not key. Integrating the acquisition would take (precious) time and might telegraph intentions.
- Build: Technology is straightforward, with few proprietary features. IBM may already have most of the technology.

Success Factors

- *Apply substantial resources* (the resources issue will be a serious concern for firms smaller than an IBM or AT&T). Resources will be spent on
  - Seller recruitment and support
  - Database content definition and updating
- *Move very fast* to get ahead of the pack: Especially important in setting up links with commerce partners
- *Real and perceived neutrality* -- business and technical
- *"Good enough" initial offerings* launched quickly (Microsoft philosophy)

Risks/Barriers:

- Probably no payoff in being #2 in this market (similar to OS/2 vs. Windows)
- Big public bet on the unknown
- Can IBM move fast enough (especially internally)?
- Can the IBM reward system motivate the leaders of what is essentially a highly leveraged new venture? (Note: It is not clear to what extent this kind of venture will -- or should -- draw on many resources from the rest of IBM.)

Approximate Market Size

The following are order-of-magnitude estimates. These could and should be refined
further. However, any numbers describing this opportunity will be highly dependent on
difficult-to-verify assumptions.

Size >>>>	Low (Under $50MM)	Medium-Low ($50-$250MM)	Medium ($250MM -750MM)	Medium-High ($750MM -$2 Bill.)	High ($2-5 Bill.)	Very High (Over $5 Bill.)
Year Expected		1997	1998	1999	1999	1999
Probabil-ity (.1-.9)		0.6	0.8	0.8	0.4	0.2

Concept:

Standardized Application Management

Background and Description:

Billions of lines of code are now being managed, some by internal corporate staffs, some by third parties. "Application Management" as used here includes the following functions:

- Takes overall responsibility that the application successfully carries out its job, primarily from a software standpoint. (Where an application uses dedicated hardware or communications, application management could take responsibility for these areas also; generally, however, the non-software areas are part of data center management, network management or desktop management.)
- Performs functional modifications and enhancements. The "Year 2000" changes are a current example of this. (There may be some overlap with small-scale systems development or even small SI jobs.)
- Performs technical changes and enhancements, usually occurring because of hardware or systems software upgrades.
- Supplies help desk and user support. (This may include or overlap education and training.)

As can be seen even from the concise description above, Applications Management can be, and often is, defined out of existence and into other categories. However, the reality is that applications need managing.

The applications to be managed differ enormously in their characteristics:

- They run the gamut from object-oriented client/server applications to those running on systems where parts are no longer available. Some depend on virtually extinct languages or software products.
- Many older applications lack documentation and are not fully understood by anyone.
- Some applications require a full appreciation of the underlying business process; many others do not
- The software may be one-of-a-kind or use packages that have tens of thousands of customers.

This state of affairs means that out of 100 application management opportunities, maybe only two will have anything in common. Reactions to this are

- Treat the business as a "handicraft", with no leverage and no economies of scale.
- Try to specialize in, say, a particular package. (However, few packaged software firms have tried to make a business out of supporting even their own customers.)

In reality, almost all of the business is treated as a handicraft: Little knowledge is systematically carried forward. This model of business also makes it difficult to convince customers that they are getting special value; hence, the prevalence of the "daily rate". The daily rate model keeps margins down, and discourages investment and specialization. (A vicious circle.)

So why is INPUT recommending this as an opportunity?

The Opportunity

IBM is large enough to achieve to transform this business by

- Developing a standardized approach that will
    - Reduce costs and increased perceived value
    - Support value selling.
- Being large enough to create and support a critical mass of business that will both produce and support standardization (a virtuous circle).

Standardization has both negative and positive implications:

<u>Positive</u>

- Using (and, sometimes, developing) applications management support tools
- Developing (and using) applications management methodologies
- Being expert in certain software products
- Extending help desk techniques
- Providing a career path for application management staff (now it is largely a dead end)
- Developing profiles (or other techniques, such as scoring) of targeted work

<u>Negative</u>

- Appreciable amounts of work -- maybe two-thirds of all opportunities -- will be turned down (or, more likely, passed on to approved body shops)

An important implication of standardization is that this business must be centrally run to obtain the benefits of standardization.

Who Is Customer?

Customers are about evenly divided between IS departments and functional units that control their own applications, largely in medium and large organizations. The selling and execution process will differ somewhat between the two types of buyers.

Geographic Differentiation:

Relatively few differences by geography.

Competition (Current/Likely):

There are thousands of companies offering this kind of service. Most are body shops.

IBM, Andersen and EDS all offer application management services but generally ancillary to another "more desirable" business (systems integration and data center management). These upper tier firms also provide this service on a standalone basis, but generally as an accommodation to customers and/or to bill unused resources.

Andersen has set this up as a line of business, but has not gotten a lot of support from the industry and SI powerhouses who run the firm. Most of Andersen's staff aspire to new development and look down on maintaining older systems.

Conclusion: There is a great deal of functional competition, but relatively little focused competition.

Entry Options:

- Organic growth, using a cadre of sales and project management staff
- Body shops could serve as subcontractors
- An acquisition would serve little purpose. More to the point, most firms that do this sort of business are body shops.

Success Factors

- IBM is well-positioned to mine its extensive customer base and use its current sales force: Sales are not overly technical or complex. This is a "service" that the sales force can understand.
- Development of a sales model and sales tools that demonstrate value (to get away from the "daily rate" pit).
- Developing and adhering to an implementation model that combines a methodology with appropriate tools. (Many of the tools will have to be invented -- a plus and a minus.)
- Accepting business that conforms to the model
- Making this a separate business with its own career path.

Risks/Barriers:

- Not breaking out of the "handicraft" model:
- Operating on a decentralized basis, i.e., not reaching critical mass.
- Taking on too much opportunistic work that does not conform to the model.

Approximate Market Size

Total worldwide annual spending on all forms of <u>third party</u> application management is about $30 billion (growing at about 13% a year). The currently available market, i.e., the market that can be standardized, is probably one-third of this, or $10 billion.

Resources being spent internally on these types of functions are probably five times as great.

April 3, 1996

Mr. Mark Shearer
Vice President, Network-Centric
Computing & Business Development
IBM Global Services
Somers, NY 10589

Via fax 914-766-8455

Dear Mark:

As I promised at our meeting on Friday, we have given further consideration to three of
the issues that we discussed concerning the "Internet Gatekeeper" opportunity:

- Prioritizing and selecting product/service opportunities
- Constraints on developing the service -- how could it be speeded up?
- IBM's value-added

I thought it would be useful to give you some feedback on these issues. (We are also
working on providing full profiles on "Customer Management" and "Billing and
Collections".)

In addition, I believe that this venture could be very important in positioning IBM in the
"center" of network-centric computing and will also comment on that.

1. PRIORITIZING AND SELECTING PRODUCT/SERVICE OPPORTUNITIES

As we discussed at the meeting there are hundreds of potential product/service areas that
could be part of this service. (Actually, depending on definitions, segmentation and
market receptivity there may be thousands.)

You had asked for some suggestions and examples of areas to consider. We developed
some initial examples easily enough, but then we realized that just giving examples would
produce a second, reasonable set of questions, including: On what basis were these
selected? How firm are INPUT's conclusions?

So we backed up and

- First, developed a list of criteria to judge opportunities against.

- Then, we picked some products and services we thought intuitively were good and not-so-good and applied the criteria.

CRITERIA

Some criteria are positive in terms of supporting a product/service being included and others are negative. The following lists are necessarily preliminary and need more work, but we believe are a good start.

Positive Criteria

- A <u>large market</u>. "Large" remains to be defined. A rough model would have to be developed that would contain overall sales and transaction figures for the product/service, likely market shares for the Gatekeeper service and ranges of seller payments. (Later, more complex and nuanced scenarios could be developed.)

- Indications that <u>distance buying</u> is acceptable to buyers. A good indication is where catalog or telemarketing sales are already a significant factor in a market.

- Selling from public <u>price lists</u> is a common practice. Goods and services sold by catalog or telemarketing are good indicators.

- Key buying requirements are reducible to <u>searchable attributes</u>. This would generally be a "must".

- There are significant <u>information barriers</u> that buyers perceive as interfering with their ability to make good buying decisions. In some cases only small subsets of sellers may be accessible (as is common in buying insurance, for example). It may also be onerous for individual buyers to assemble all the information needed.

- Buying decisions that are improved by using an implicit or explicit buying <u>model</u> made up of weighted or organized attributes. This may less important in fairly standard products like PCs. Modeling may be very important in, say, business insurance.

<u>Negative Criteria</u>

- Where there is already an <u>established equivalent</u> (e.g., airline tickets). This would often be a "knock-out", at least for the first wave.

- The product or service is generally sold in a regional or <u>local market</u> (e.g., real estate, many professional services). These might be second wave items or delegated to a franchisee (see the discussion under Speeding Up Development).

- Items which have a high <u>style or intangible content</u>. A list of companies, for example, that sell women's clothing would not add very much value -- this is the on-line Yellow Pages problem.

- Areas where sellers tend to have many <u>return customers</u>. These will be more likely to go directly to a seller and find the Gatekeeper less useful.

- Areas where there is in fact <u>little choice</u> of sellers.

- Large scale flows of orders between predefined sets of buyers and sellers. This is a better fit with "standard" <u>electronic commerce</u>.

- Where <u>negotiated prices</u> are common (as in property and vehicle sales). In these cases, a referral becomes more like Yellow Pages or current Web advertising.

- Where <u>IBM itself is a seller</u>. PCs are probably the main potential area of conflict.

The attached matrices take these criteria and assess a dozen or so potential products and services. There appear to be some potential winners and losers on the list, but INPUT would not make judgments at this point.

- This analysis is mainly a demonstration of how a more definitive assessment would be conducted.

- The criteria and, especially, their application should be rigorously reviewed.

- Some of the criteria are probably more important than others. This should also be reviewed.

INPUT would be willing to conduct this additional work, either by itself or in conjunction with IBM staff.

2. SPEEDING UP DEVELOPMENT: FRANCHISING

Part of the discussion on Friday revolved around the resource constraints on development: We all agreed the content-related functions would require specialized knowledge and be quite time-consuming, e.g., such tasks as

- Defining content
- Normalizing the value of attributes
- Negotiating with sellers -consuming.

We believe that one way to deal with these issues would be to work with partners who were knowledgeable on content issues. INPUT believes a franchising approach can be applied in a way that would give IBM overall control over the standards, quality and direction of the service, while mobilizing the efforts of many helpers.

3. IBM'S VALUE-ADDED

There were doubts expressed at the meeting concerning how much value IBM would bring to this sort of venture. It is true (as I said on Friday) that some other large firms could also sponsor this kind of service. Taking together the different points made in course of the meeting, it appears that there is a critical mass of instances where IBM would add considerable value. These are summarized below.

- IBM has the resources and staying power. This will be especially important for recruiting sellers and, if INPUT's idea were adopted, "franchisees". Both sets of partners will have to devote considerable resources of their own to this venture and will want a leader who will have the resources to see the work through to completion.

- If the venture is successful, it will be a semi-monopoly, in our view. The operator must be perceived as neutral. IBM's reputation will be very useful in that role. The fact that IBM is not a primary player now in Electronic Commerce (on or off the Internet) can be viewed in this context as a strength, not a weakness.

- The Internet is still widely perceived as being quite technical. The IBM image will be reassuring to the buyer/users.

- The technical core of the offering, in our opinion, will actually be database technology. IBM has unparalleled knowledge here. (The knowledge will, of course, have to be mobilized and directed.)

No doubt there are other examples as well, but I think this does illustrate the potential value that IBM can add.

4. POSITIONING IBM

The special report on "Telecom's New Age" in the current Business Week, did not mention IBM. IBM sees the situation differently -- note that IBM had four pages of ads throughout the section. This confirms my own (unscientific) observation that IBM is positioned by the press and analysts in the second rank of networking, communications and "new media" organizations. For better or worse, Prodigy may get the most notice.

Being the "Internet Gatekeeper" would put IBM back in the game, both in reality and, equally importantly, in the perception of the informed public, other influencers and business leaders.

Investments, especially if a franchise approach were used, could be kept under control. Investment would certainly be far less than those being made in cable, optical fiber, cellular, PCs, satellites, etc. Value-added services such as the Internet Gatekeeper will ride on the backs of these transport investments.

I hope these comments have been useful. I and the others at INPUT who worked on this project have become increasingly enthusiastic about this concept -- but we don't kid ourselves -- this is an idea that's still in the tire-kicking stage. It probably needs a team of 3-5 people working on the concept for several months to fully understand the opportunity and feasibility.

If IBM goes further with this, we believe INPUT can continue to add value.

Sincerely,

Thomas O'Flaherty
Vice President

Attachments

cc. John Fisher fax 914-766-7117

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA	PRODUCT/SERVICE EXAMPLES				
Positive Factors	Personal Auto Insurance	Business Auto Insurance	Personal Property Insurance	Business Property Insurance	Health Insurance (Business)
Large market	A	A	A	A	A
Distance buying	B				
Price lists					
Searchable	A	B	A	B	B
Info barriers	A	A	A	A	A
Criteria modeling	B	A	B	A	A
Negative Factors					
Established equivalent					
Local markets					
Style, intangibles					
Low switching					
Little choice					
Electronic commerce					
Negotiated prices		X		X	X
IBM a seller					

Key: Positive Factors   Negative Factors
      A = Very Positive   X = Negative
      B = Positive   XX = Very Negative, possibly a "knock-out"

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA	PRODUCT/SERVICE EXAMPLES				
Positive Factors	Clothing	Cars	Real Estate	Long Distance Telephone	Personal Computers
Large market	A	A	A	A	A
Distance buying	A			A	A
Price lists	A				A
Searchable	A	A	B	A	A
Info barriers		B	B	B	B
Criteria modeling				B	B
Negative Factors					
Established equivalent					
Local markets			XX		
Style, intangibles	XX	X	X		
Low switching	X				
Little choice					
Electronic commerce					
Negotiated prices		XX	XX		
IBM a seller					XX

Key: Positive Factors   Negative Factors
      A = Very Positive   X = Negative
      B = Positive   XX = Very Negative, possibly a "knock-out"

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA   **PRODUCT/SERVICE EXAMPLES**

Positive Factors	Office Equip.	Doctor	Airline Tickets	Cruise, Resort	Car Parts (Replace-ment)
Large market	A	A	A	A	A
Distance buying	B		B	B	A
Price lists	B		A	B	A
Searchable	A		A	B	A
Info barriers	A	A	A	A	B
Criteria modeling	B	A	A	A	
Negative Factors					
Established equivalent			XX	X	X
Local markets		XX			X
Style, intangibles		XX			
Low switching		X			
Little choice					X
Electronic commerce					X
Negotiated prices					
IBM a seller					

Key: Positive Factors   Negative Factors
      A = Very Positive   X = Negative
      B = Positive   XX = Very Negative, possibly a "knock-out"

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April 9, 1996

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Via fax 914-766-8455   Page 1 of 9

Dear Mark:

Attached are the two remaining new service opportunities INPUT has analyzed:

- Customized Billing, Statement and Collection Services
- Customer Management and Sales Support

We will be happy to discuss details of this work with you further or to perform new analysis that you might require.

Sincerely,

Thomas O'Flaherty
Vice President

Attachments

cc. John Fisher fax 914-766-7117

IBM NEW SERVICE OPPORTUNITY (C)

Concept:

Customized Billing, Statement and Collection Services

Background and Description:

The general components of billing and collection are similar across all industries (see schematic flowchart attached).

Applications and industries often have very specific and very different requirements, e.g.,

- Retail/Catalog direct billing
- Credit card billing (all general types)
- Bank statements
- Invoicing and other non-billing notifications (e.g., frequent flyer)
- Water and gas utilities
- Telephone
- Mortgage and loan servicing
- Account inquiries

Virtually all current statement/collection services focus on a small portion of the market:

- Much of the work is still done in-house, within a single organization
- Most third parties specialize in a particular application and a limited number of the components shown on the exhibit.

Market requirements are changing in several ways:

- There is increased interest in outsourcing generally

- Specifically, electronic commerce is changing established relationships and making potential customers of this service open to new arrangements

- Many current billing systems are technically obsolete and are both expensive and inflexible

The Opportunity

No current vendor offers billing, statement and collection services that cross current boundaries. Because requirements are changing, this market is, essentially, "reopening" and new vendors will be able to enter.

The proposed service would have the following characteristics:

- There would be a common core of functionality to serve all major applications and industries

- The "edges" of the offering would be tailored for specific applications.

- NCC would be used to make distance immaterial from the standpoint of IBM's customer and the customer's customers.

IBM would apply its experience in large scale outsourcing.

Who Is Customer?

Virtually any high volume customer.

Geographic Differentiation:

Little necessary.

Competition (Current/Likely)

Established vendors are specialists (such as those offering credit card processing). The market is sensitive to both cost and service. IBM could have much larger economies of scale than any current vendor.

Andersen has begun to cautiously enter parts of this market. EDS could be a large scale supplier of this type of service in the future.

Entry Options:

Acquire second tier processing vendors for their subject matter expertise and combine them with ISSC.

Success Factors

- Right acquisitions
- Strategy for blending acquisitions
- Careful control of overheads
- Large scale, efficient processing
- Judging right "break point" between core and tailored functions (Break point may differ by application.)

Risks/Barriers:

- Attaining critical mass
- Market acceptance: Countering specialists claims of special knowledge
- Margins

Approximate Market Size

The potential market is very large. Companies now spend in the hundreds of billions on these functions now.

IBM NEW SERVICE OPPORTUNITY (D)

Concept:

Customer Management and Sales Support

Background and Description:

Many firms already outsource part of the customer management and/or sales support process (see attached diagram).

- Direct marketing is a large business in the U.S. and to a lesser extent in other parts of the world.

- Marketing database service companies, most notably AXCIOM, have been very successful, both in terms of meeting the needs of their clients as well as their own growth and profitability.

Many firms, most visibly in the computer hardware and software areas, use third parties to provide customer support.

The pieces of Customer Management have been slowly coming together:

- Increasing numbers of vendors support the all of the direct marketing process.

- Telesales companies use their resources to provide customer support.

- Direct marketing companies can tie into their client's order entry systems

The Opportunity

While the pieces of the business are converging, this convergence is happening slowly. There is an opportunity to offer a comprehensive set of services.

- Even the largest firms in the business are constrained by financial and management resources.

- Customers need education and confidence that a single vendor can handle all, or most, of these functions.

INPUT believes that if a value proposition can be shown, then a new, higher margin business can be created.

Who Is Customer?

Firms with a need for ongoing customer contact, e.g.,

- Retailers
- Financial service firms
- Product manufacturers
- Other service firms (e.g., health care will probably take off in the next five years)

Geographic Differentiation:

The U.S. is the most mature market. Other geographies have legal or cultural barriers that must be taken into account.

Competition (Current/Likely)

There are literally thousands of firms now serving parts of this market. Few if any have the combination of vision, capabilities and resources to make the transition unassisted.

Entry Options:

Acquire several competent firms in different parts of the field and combine them with IBM's processing and database expertise.

Success Factors

- Selecting right acquisitions
- Strategy for managing and combining acquisitions
- "Story" to present to initial prospects
- Turning business into a "value proposition" for customers

Risks/Barriers:

- Managing the business the initial year
- Competing on components (some of which are low margin)

Approximate Market Size

In the U.S. alone, the potential market is over $75 billion (counting in-house operations). The served market (for components) is about 10% of the potential market.

INPUT

CONTACT REPORT

☐ MAIL LIST - SEE BACK

3/29

Non Client/Prospect File: ☐ Media ☐ Financial ☐ Other _____

Contact Date: 4 / 3 / 96

INPUT
Staff: Init. _____ Init. _____ ☐ INPUT office ☐ Client Office ☐ Other _____

Date Written: 4 / 5 / 96

Company IBM	DISTRIBUTION:			Prog./Proj. ID _____
	Action	Info.	By When	Describe Action-F/U
Name Mark Shearer	TRP	TS	4/3	Follow-up on
Title VP - NCC				I-Net Gatekeeper
Address			4/8	Next 2 opps
		NB		
Phone: (914) 766-4780		PAC		
Fax: ( ) -				

Interim Review - "New Svc Opp" (attached)

① "Big dogs need big bones" (PAC cited) —
went over very well

• They really pushed on the "I-Net Gatekeeper" —
Apr 3 letter responded to their queries (attached)
[no feedback yet]

• "Standard Appl Mgt" got immediate
intuitive positive feedback

② The 2 above really fulfilled requirement

③ Reviewed pipeline — Customer Mgt & Billing
got interest & I said we would write up

④ Called Fisher Apr 3 for feedback — he said
it was positive

☐ Continued over

M&S 300/01 6/94 (R)

Mail List Change Order ☐ Update ☐ Correction ☐ Deletion ☐ Addition* Serial Number_____

U.S. COMMERCIAL

1. TYPE   ☐ Vendor ☐ User ☐ Investor / Financial ☐ Media / Press ☐ Other ☐ EDI Newsletter

2. LEVEL   ☐ Executive ☐ Manager ☐ Analyst ☐ Acquisition ☐ International ☐ Other

3. INTERESTS ☐ C/S ☐ Computer Systems ☐ Networks ☐ EC ☐ Information Services —
                 ☐ EIS / CIS / Multimedia ☐ Other
                                                          └─☐ Software Products
         ☐ Industry _____   ├─☐ Professional Services, SI
                                                          └─☐ Outsourcing, Processing, Network Services

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U.S. FEDERAL ☐ MMAR ☐ FPAP ☐ FPAW ☐ FPFA ☐ Other

EUROPE   ☐ CSPR ☐ MAAP ☐ MSSP ☐ MVPP ☐ BIPR ☐ OSPR ☐ U.S.A. ☐ Other

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* No names will be added without a completed   Program Manager
change order and program manager approval.   Authorization _____

CONTACT REPORT Company _____
Continuation

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M&S 310 R 6/94

REVIEW

NEW SERVICE OPPORTUNITIES

"Big Dogs Need Big Bones"

Prepared for

IBM

March 29, 1996

Prepared by

INPUT

IBM NEW SERVICE OPPORTUNITY (A)

"Internet Gatekeeper"

Concept:

Become the dominant provider of all services that can be linked to an Internet directory/index. ("If you want to use the Internet, you use the IBM Gateway")

Description:

The core of the offering will be a complete directory/index to the Internet and World Wide Web. The core is necessary but not sufficient: There is already considerable competition in directories/indexes (Yahoo, etc.) and barriers to entry for offering the core directory/indexing service are low.

The first vendor to offer a comprehensive set of related features and functions will have a pre-eminent position in the market and be extremely hard to dislodge (see "Competition", below). A non-exhaustive list of linked capabilities includes:

- A constantly improving Internet directory/index (needed to keep up with competitive products)
- Analogous intranet products designed and installed on a custom basis
    - Can link to and/or can be partially integrated with public directory/index
    - Can utilize InterNotes
- Comprehensive product/service directories (with hot links and small seller transaction fees; commissions on sales)
- Embed/link to product specification databases. Include hot link referral to sellers (with a small transaction fee and commissions on sales)
- Foreign language machine translation capabilities (fee based)
- Event calendars and ticketing
- Buyer requests build up database of wants and needs -- a type of intelligent agent. (Buyer-generated target marketing.)
- IBM electronic commerce support services and products as a companion offering (but probably at arms-length
- Incorporates functions of infoSage and infoMarket

From a customer standpoint the service should have multiple views and, as needed, look like:

- Meta-yellow pages
- Meta-white pages
- Consumer goods catalog (electronic mall)
- Product specification sheets
- Comparison buying service (business and consumer)
- "Library" catalog
- News and information service
- Professional development roundtable/training
- Direct marketing

Who Is The Customer?

- Business users are the most attractive targets, from a revenue generation and natural fit with IBM
- Consumer Electronic Commerce customers could be a close second because of potential size of transaction fees from sellers
- Other users are more than "necessary evils":
  - Internet users often wear several hats (surfer, consumer by night; business user during the day
  - More importantly, dominance is all or nothing.

Geographic Differentiation:

- Because of the preponderance of English on the Internet, initial targets will be skewed to those with adequate English language skills
- Machine translation features will open up new markets, which will bind them even more tightly to the gateway than other types of users.

Competition (Current/Likely):

There is much "plain vanilla" competition in directories/indexes (Yahoo-like). Two graduate students with a borrowed server can play in this part of the market.

Differentiation and long term success will come from add-ons. If undisturbed, current suppliers will probably add features incrementally. Result: All offerings will be suboptimal and none will take off.

The first firm to take a strong lead will continue to pull ahead and will win. Taking the printed Yellow Pages as the model, there is only room for one primary provider (Why look at several subsets, when one stop has it all?) Perhaps this is even a natural monopoly (in which case non-favoritism would be an important attribute).

Entry Options:

- Acquire a current supplier, primarily for time to market savings. Downside: Core offering is not key. Integrating the acquisition would take (precious) time and might telegraph intentions.
- Build: Technology is straightforward, with few proprietary features. IBM may already have most of the technology.

Success Factors

- *Apply substantial resources* (the resources issue will be a serious concern for firms smaller than an IBM or AT&T). Resources will be spent on
    - Seller recruitment and support
    - Database content definition and updating
- *Move very fast* to get ahead of the pack: Especially important in setting up links with commerce partners
- *Real and perceived neutrality* -- business and technical
- *"Good enough" initial offerings* launched quickly (Microsoft philosophy)

Risks/Barriers:

- Probably no payoff in being #2 in this market (similar to OS/2 vs. Windows)
- Big public bet on the unknown
- Can IBM move fast enough (especially internally)?
- Can the IBM reward system motivate the leaders of what is essentially a highly leveraged new venture? (Note: It is not clear to what extent this kind of venture will -- or should -- draw on many resources from the rest of IBM.)

Approximate Market Size

The following are order-of-magnitude estimates. These could and should be refined further. However, any numbers describing this opportunity will be highly dependent on difficult-to-verify assumptions.

Size >>>>	Low (Under $50MM)	Medium-Low ($50-$250MM)	Medium ($250MM-750MM)	Medium-High ($750MM-$2 Bill.)	High ($2-5 Bill.)	Very High (Over $5 Bill.)
Year Expected		1997	1998	1999	1999	1999
Probability (.1-.9)		0.6	0.8	0.8	0.4	0.2

IBM NEW SERVICE OPPORTUNITY (B)

Concept:

Standardized Application Management

Background and Description:

Billions of lines of code are now being managed, some by internal corporate staffs, some by third parties. "Application Management" as used here includes the following functions:

- Takes overall responsibility that the application successfully carries out its job, primarily from a software standpoint. (Where an application uses dedicated hardware or communications, application management could take responsibility for these areas also; generally, however, the non-software areas are part of data center management, network management or desktop management.)
- Performs functional modifications and enhancements. The "Year 2000" changes are a current example of this. (There may be some overlap with small-scale systems development or even small SI jobs.)
- Performs technical changes and enhancements, usually occurring because of hardware or systems software upgrades.
- Supplies help desk and user support. (This may include or overlap education and training.)

As can be seen even from the concise description above, Applications Management can be, and often is, defined out of existence and into other categories. However, the reality is that applications need managing.

The applications to be managed differ enormously in their characteristics:

- They run the gamut from object-oriented client/server applications to those running on systems where parts are no longer available. Some depend on virtually extinct languages or software products.
- Many older applications lack documentation and are not fully understood by anyone.
- Some applications require a full appreciation of the underlying business process; many others do not
- The software may be one-of-a-kind or use packages that have tens of thousands of customers.

This state of affairs means that out of 100 application management opportunities, maybe only two will have anything in common. Reactions to this are

- Treat the business as a "handicraft", with no leverage and no economies of scale.
- Try to specialize in, say, a particular package. (However, few packaged software firms have tried to make a business out of supporting even their own customers.)

In reality, almost all of the business is treated as a handicraft: Little knowledge is systematically carried forward. This model of business also makes it difficult to convince customers that they are getting special value; hence, the prevalence of the "daily rate". The daily rate model keeps margins down, and discourages investment and specialization. (A vicious circle.)

So why is INPUT recommending this as an opportunity?

The Opportunity

IBM is large enough to achieve to transform this business by

- Developing a standardized approach that will
  - Reduce costs and increased perceived value
  - Support value selling.
- Being large enough to create and support a critical mass of business that will both produce and support standardization (a virtuous circle).

Standardization has both negative and positive implications:

Positive

- Using (and, sometimes, developing) applications management support tools
- Developing (and using) applications management methodologies
- Being expert in certain software products
- Extending help desk techniques
- Providing a career path for application management staff (now it is largely a dead end)
- Developing profiles (or other techniques, such as scoring) of targeted work

Negative

- Appreciable amounts of work -- maybe two-thirds of all opportunities -- will be turned down (or, more likely, passed on to approved body shops)

An important implication of standardization is that this business must be centrally run to obtain the benefits of standardization.

Who Is Customer?

Customers are about evenly divided between IS departments and functional units that control their own applications, largely in medium and large organizations. The selling and execution process will differ somewhat between the two types of buyers.

Geographic Differentiation:

Relatively few differences by geography.

Competition (Current/Likely):

There are thousands of companies offering this kind of service. Most are body shops.

IBM, Andersen and EDS all offer application management services but generally ancillary to another "more desirable" business (systems integration and data center management). These upper tier firms also provide this service on a standalone basis, but generally as an accommodation to customers and/or to bill unused resources.

Andersen has set this up as a line of business, but has not gotten a lot of support from the industry and SI powerhouses who run the firm. Most of Andersen's staff aspire to new development and look down on maintaining older systems.

Conclusion: There is a great deal of functional competition, but relatively little focused competition.

Entry Options:

- Organic growth, using a cadre of sales and project management staff
- Body shops could serve as subcontractors
- An acquisition would serve little purpose. More to the point, most firms that do this sort of business are body shops.

Success Factors

- IBM is well-positioned to mine its extensive customer base and use its current sales force: Sales are not overly technical or complex. This is a "service" that the sales force can understand.
- Development of a sales model and sales tools that demonstrate value (to get away from the "daily rate" pit).
- Developing and adhering to an implementation model that combines a methodology with appropriate tools. (Many of the tools will have to be invented -- a plus and a minus.)
- Accepting business that conforms to the model
- Making this a separate business with its own career path.

Risks/Barriers:

- Not breaking out of the "handicraft" model:
- Operating on a decentralized basis, i.e., not reaching critical mass.
- Taking on too much opportunistic work that does not conform to the model.

Approximate Market Size

Total worldwide annual spending on all forms of <u>third party</u> application management is about $30 billion (growing at about 13% a year). The currently available market, i.e., the market that can be standardized, is probably one-third of this, or $10 billion.

Resources being spent internally on these types of functions are probably five times as great.

INPUT IT Intelligence Services

April 3, 1996

Mr. Mark Shearer
Vice President, Network-Centric
Computing & Business Development
IBM Global Services
Somers, NY 10589

Via fax 914-766-8455

Dear Mark:

As I promised at our meeting on Friday, we have given further consideration to three of
the issues that we discussed concerning the "Internet Gatekeeper" opportunity:

- Prioritizing and selecting product/service opportunities
- Constraints on developing the service -- how could it be speeded up?
- IBM's value-added

I thought it would be useful to give you some feedback on these issues. (We are also
working on providing full profiles on "Customer Management" and "Billing and
Collections".)

In addition, I believe that this venture could be very important in positioning IBM in the
"center" of network-centric computing and will also comment on that.

1. PRIORITIZING AND SELECTING PRODUCT/SERVICE OPPORTUNITIES

As we discussed at the meeting there are hundreds of potential product/service areas that
could be part of this service. (Actually, depending on definitions, segmentation and
market receptivity there may be thousands.)

You had asked for some suggestions and examples of areas to consider. We developed
some initial examples easily enough, but then we realized that just giving examples would
produce a second, reasonable set of questions, including: On what basis were these
selected? How firm are INPUT's conclusions?

So we backed up and

- First, developed a list of criteria to judge opportunities against.

- Then, we picked some products and services we thought intuitively were good and not-so-good and applied the criteria.

CRITERIA

Some criteria are positive in terms of supporting a product/service being included and others are negative. The following lists are necessarily preliminary and need more work, but we believe are a good start.

<u>Positive Criteria</u>

- A <u>large market</u>. "Large" remains to be defined. A rough model would have to be developed that would contain overall sales and transaction figures for the product/service, likely market shares for the Gatekeeper service and ranges of seller payments. (Later, more complex and nuanced scenarios could be developed.)

- Indications that <u>distance buying</u> is acceptable to buyers. A good indication is where catalog or telemarketing sales are already a significant factor in a market.

- Selling from public <u>price lists</u> is a common practice. Goods and services sold by catalog or telemarketing are good indicators.

- Key buying requirements are reducible to <u>searchable attributes</u>. This would generally be a "must".

- There are significant <u>information barriers</u> that buyers perceive as interfering with their ability to make good buying decisions. In some cases only small subsets of sellers may be accessible (as is common in buying insurance, for example). It may also be onerous for individual buyers to assemble all the information needed.

- Buying decisions that are improved by using an implicit or explicit buying <u>model</u> made up of weighted or organized attributes. This may less important in fairly standard products like PCs. Modeling may be very important in, say, business insurance.

<u>Negative Criteria</u>

- Where there is already an <u>established equivalent</u> (e.g., airline tickets). This would often be a "knock-out", at least for the first wave.

- The product or service is generally sold in a regional or <u>local market</u> (e.g., real estate, many professional services). These might be second wave items or delegated to a franchisee (see the discussion under Speeding Up Development).

- Items which have a high <u>style or intangible content</u>. A list of companies, for example, that sell women's clothing would not add very much value -- this is the on-line Yellow Pages problem.

- Areas where sellers tend to have many <u>return customers</u>. These will be more likely to go directly to a seller and find the Gatekeeper less useful.

- Areas where there is in fact <u>little choice</u> of sellers.

- Large scale flows of orders between predefined sets of buyers and sellers. This is a better fit with "standard" <u>electronic commerce</u>.

- Where <u>negotiated prices</u> are common (as in property and vehicle sales). In these cases, a referral becomes more like Yellow Pages or current Web advertising.

- Where <u>IBM itself is a seller</u>. PCs are probably the main potential area of conflict.

The attached matrices take these criteria and assess a dozen or so potential products and services. There appear to be some potential winners and losers on the list, but INPUT would not make judgments at this point.

- This analysis is mainly a demonstration of how a more definitive assessment would be conducted.

- The criteria and, especially, their application should be rigorously reviewed.

- Some of the criteria are probably more important than others. This should also be reviewed.

INPUT would be willing to conduct this additional work, either by itself or in conjunction with IBM staff.

2. SPEEDING UP DEVELOPMENT: FRANCHISING

Part of the discussion on Friday revolved around the resource constraints on development: We all agreed the content-related functions would require specialized knowledge and be quite time-consuming, e.g., such tasks as

- Defining content
- Normalizing the value of attributes
- Negotiating with sellers -consuming.

We believe that one way to deal with these issues would be to work with partners who were knowledgeable on content issues. INPUT believes a franchising approach can be applied in a way that would give IBM overall control over the standards, quality and direction of the service, while mobilizing the efforts of many helpers.

3. IBM'S VALUE-ADDED

There were doubts expressed at the meeting concerning how much value IBM would bring to this sort of venture. It is true (as I said on Friday) that some other large firms could also sponsor this kind of service. Taking together the different points made in course of the meeting, it appears that there is a critical mass of instances where IBM would add considerable value. These are summarized below.

- IBM has the resources and staying power. This will be especially important for recruiting sellers and, if INPUT's idea were adopted, "franchisees". Both sets of partners will have to devote considerable resources of their own to this venture and will want a leader who will have the resources to see the work through to completion.

- If the venture is successful, it will be a semi-monopoly, in our view. The operator must be perceived as neutral. IBM's reputation will be very useful in that role. The fact that IBM is not a primary player now in Electronic Commerce (on or off the Internet) can be viewed in this context as a strength, not a weakness.

- The Internet is still widely perceived as being quite technical. The IBM image will be reassuring to the buyer/users.

- The technical core of the offering, in our opinion, will actually be database technology. IBM has unparalleled knowledge here. (The knowledge will, of course, have to be mobilized and directed.)

No doubt there are other examples as well, but I think this does illustrate the potential value that IBM can add.

4. POSITIONING IBM

The special report on "Telecom's New Age" in the current Business Week, did not mention IBM. IBM sees the situation differently -- note that IBM had four pages of ads throughout the section. This confirms my own (unscientific) observation that IBM is positioned by the press and analysts in the second rank of networking, communications and "new media" organizations. For better or worse, Prodigy may get the most notice.

Being the "Internet Gatekeeper" would put IBM back in the game, both in reality and, equally importantly, in the perception of the informed public, other influencers and business leaders.

Investments, especially if a franchise approach were used, could be kept under control. Investment would certainly be far less than those being made in cable, optical fiber, cellular, PCs, satellites, etc. Value-added services such as the Internet Gatekeeper will ride on the backs of these transport investments.

I hope these comments have been useful. I and the others at INPUT who worked on this project have become increasingly enthusiastic about this concept -- but we don't kid ourselves -- this is an idea that's still in the tire-kicking stage. It probably needs a team of 3-5 people working on the concept for several months to fully understand the opportunity and feasibility.

If IBM goes further with this, we believe INPUT can continue to add value.

Sincerely,

Thomas O'Flaherty
Vice President

Attachments

cc. John Fisher fax 914-766-7117

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA   **PRODUCT/SERVICE EXAMPLES**

Positive Factors	Personal Auto Insurance	Business Auto Insurance	Personal Property Insurance	Business Property Insurance	Health Insurance (Business)
Large market	A	A	A	A	A
Distance buying	B				
Price lists					
Searchable	A	B	A	B	B
Info barriers	A	A	A	A	A
Criteria modeling	B	A	B	A	A
Negative Factors					
Established equivalent					
Local markets					
Style, intangibles					
Low switching					
Little choice					
Electronic commerce					
Negotiated prices		X		X	X
IBM a seller					

Key: <u>Positive Factors</u>   <u>Negative Factors</u>
       A = Very Positive   X = Negative
       B = Positive   XX = Very Negative, possibly a "knock-out"

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA   **PRODUCT/SERVICE EXAMPLES**

Positive Factors	Clothing	Cars	Real Estate	Long Distance Telephone	Personal Computers
Large market	A	A	A	A	A
Distance buying	A			A	A
Price lists	A				A
Searchable	A	A	B	A	A
Info barriers		B	B	B	B
Criteria modeling				B	B
Negative Factors					
Established equivalent					
Local markets			XX		
Style, intangibles	XX	X	X		
Low switching	X				
Little choice					
Electronic commerce					
Negotiated prices		XX	XX		
IBM a seller					XX

Key: <u>Positive Factors</u>   <u>Negative Factors</u>
       A = Very Positive   X = Negative
       B = Positive   XX = Very Negative, possibly a "knock-out"

INTERNET GATEKEEPER:
PRODUCT/SERVICE SELECTION CRITERIA

CRITERIA	PRODUCT/SERVICE EXAMPLES				
Positive Factors	Office Equip.	Doctor	Airline Tickets	Cruise, Resort	Car Parts (Replace-ment)
Large market	A	A	A	A	A
Distance buying	B		B	B	A
Price lists	B		A	B	A
Searchable	A		A	B	A
Info barriers	A	A	A	A	B
Criteria modeling	B	A	A	A	
Negative Factors					
Established equivalent			XX	X	X
Local markets		XX			X
Style, intangibles		XX			
Low switching		X			
Little choice					X
Electronic commerce					X
Negotiated prices					
IBM a seller					

Key: Positive Factors   Negative Factors
     A = Very Positive   X = Negative
     B = Positive   XX = Very Negative, possibly a "knock-out"

INPUT IT Intelligence Services

400 Frank W. Burr Blvd.
Teaneck, NJ 07666
Tel. (201) 801-0050
Fax (201) 801-0441

April 9, 1996

Mr. Mark Shearer
Vice President, Network-Centric
Computing & Business Development
IBM Global Services
Somers, NY 10589

Via fax 914-766-8455   Page 1 of 9

Dear Mark:

Attached are the two remaining new service opportunities INPUT has analyzed:

- Customized Billing, Statement and Collection Services
- Customer Management and Sales Support

We will be happy to discuss details of this work with you further or to perform new analysis that you might require.

Sincerely,

Thomas O'Flaherty
Vice President

Attachments

cc. John Fisher fax 914-766-7117

IBM NEW SERVICE OPPORTUNITY (C)

Concept:

Customized Billing, Statement and Collection Services

Background and Description:

The general components of billing and collection are similar across all industries (see schematic flowchart attached).

Applications and industries often have very specific and very different requirements, e.g.,

- Retail/Catalog direct billing
- Credit card billing (all general types)
- Bank statements
- Invoicing and other non-billing notifications (e.g., frequent flyer)
- Water and gas utilities
- Telephone
- Mortgage and loan servicing
- Account inquiries

Virtually all current statement/collection services focus on a small portion of the market:

- Much of the work is still done in-house, within a single organization
- Most third parties specialize in a particular application and a limited number of the components shown on the exhibit.

Market requirements are changing in several ways:

- There is increased interest in outsourcing generally

- Specifically, electronic commerce is changing established relationships and making potential customers of this service open to new arrangements

- Many current billing systems are technically obsolete and are both expensive and inflexible

The Opportunity

No current vendor offers billing, statement and collection services that cross current boundaries. Because requirements are changing, this market is, essentially, "reopening" and new vendors will be able to enter.

The proposed service would have the following characteristics:

- There would be a common core of functionality to serve all major applications and industries

- The "edges" of the offering would be tailored for specific applications.

- NCC would be used to make distance immaterial from the standpoint of IBM's customer and the customer's customers.

IBM would apply its experience in large scale outsourcing.

Who Is Customer?

Virtually any high volume customer.

Geographic Differentiation:

Little necessary.

Competition (Current/Likely)

Established vendors are specialists (such as those offering credit card processing). The market is sensitive to both cost and service. IBM could have much larger economies of scale than any current vendor.

Andersen has begun to cautiously enter parts of this market. EDS could be a large scale supplier of this type of service in the future.

Entry Options:

Acquire second tier processing vendors for their subject matter expertise and combine them with ISSC.

Success Factors

- Right acquisitions
- Strategy for blending acquisitions
- Careful control of overheads
- Large scale, efficient processing
- Judging right "break point" between core and tailored functions (Break point may differ by application.)

Risks/Barriers:

- Attaining critical mass
- Market acceptance: Countering specialists claims of special knowledge
- Margins

Approximate Market Size

The potential market is very large. Companies now spend in the hundreds of billions on these functions now.

IBM NEW SERVICE OPPORTUNITY (D)

Concept:

Customer Management and Sales Support

Background and Description:

Many firms already outsource part of the customer management and/or sales support process (see attached diagram).

- Direct marketing is a large business in the U.S. and to a lesser extent in other parts of the world.

- Marketing database service companies, most notably AXCIOM, have been very successful, both in terms of meeting the needs of their clients as well as their own growth and profitability.

Many firms, most visibly in the computer hardware and software areas, use third parties to provide customer support.

The pieces of Customer Management have been slowly coming together:

- Increasing numbers of vendors support the all of the direct marketing process.

- Telesales companies use their resources to provide customer support.

- Direct marketing companies can tie into their client's order entry systems

The Opportunity

While the pieces of the business are converging, this convergence is happening slowly. There is an opportunity to offer a comprehensive set of services.

- Even the largest firms in the business are constrained by financial and management resources.

- Customers need education and confidence that a single vendor can handle all, or most, of these functions.

INPUT believes that if a value proposition can be shown, then a new, higher margin business can be created.

Who Is Customer?

Firms with a need for ongoing customer contact, e.g.,

- Retailers
- Financial service firms
- Product manufacturers
- Other service firms (e.g., health care will probably take off in the next five years)

Geographic Differentiation:

The U.S. is the most mature market. Other geographies have legal or cultural barriers that must be taken into account.

Competition (Current/Likely)

There are literally thousands of firms now serving parts of this market. Few if any have the combination of vision, capabilities and resources to make the transition unassisted.

Entry Options:

Acquire several competent firms in different parts of the field and combine them with IBM's processing and database expertise.

Success Factors

- Selecting right acquisitions
- Strategy for managing and combining acquisitions
- "Story" to present to initial prospects
- Turning business into a "value proposition" for customers

Risks/Barriers:

- Managing the business the initial year
- Competing on components (some of which are low margin)

Approximate Market Size

In the U.S. alone, the potential market is over $75 billion (counting in-house operations). The served market (for components) is about 10% of the potential market.

INPUT®

FAX TRANSMITTAL FORM

Date: July 19

Confidential: Y/N

Urgent: Y/N

To: Name: Randi

Tel./Location:

Co.:

Page: 1 of 5

Fax No:

From: Name: Tom

Subject: Proposal to John Fisher

Attached is what IBM is paying for.

They did not sign this for us ahead of
time (they rarely do). However, it was
approved by the customer (John Fisher) in
mid-April

INPUT°

400 Frank W. Burr Blvd.
Teaneck, NJ 07666
Tel. (201) 801-0050
Fax (201) 801-0441

FAX TRANSMITTAL FORM

Date: July 19

To: Name: Jane Visci

Tel./Location:

Co.:

Fax No: 914-766-9447

From: Name: Tom O'Flaherty

Subject: Attached Proposal

Confidential: Y / N

Urgent: Y / N

Page: 1 of 5

File: Chron

Contact

Other:

John Fisher asked me to fax this
to you for forwarding to Accts Payables

ADM 341/05 6/93

PROPOSAL

IDENTIFICATION OF TACTICAL SERVICES OPPORTUNITIES

Submitted to

IBM

March 6, 1996

Prepared by

INPUT

Atrium at Glenpointe
400 Frank W. Burr Boulevard
Teaneck, NJ 07666

201-801-0050
Fax: 201-801-0441

IDENTIFICATION OF TACTICAL SERVICES OPPORTUNITIES

I.   OBJECTIVES

IBM wishes to have tactical services opportunities identified by a knowledgeable, objective third party.

II.   SCOPE

INPUT will identify services opportunities for IBM with the following characteristics:

- The service is not being offered or are being planned to be offered by IBM.

- The service should have worldwide potential, although the service may initially be more suitable or have more potential in a particular geography.

- The service may be currently offered by other firm(s), or may be a potentially attractive service not currently being offered.

- The service should have a reasonable revenue potential and IBM should have a reasonable chance of penetrating the market where the service, or a similar service, is already being offered.

- The service should be one where IBM has the current capabilities and market presence to be able to implement the service in 1996.

IBM wishes to have this project completed by March 31, 1996. INPUT requires authorization to proceed by March 12, 1996 in order to meet this schedule.

III. METHODOLOGY

This project will conduct little primary research (the exception is noted below). INPUT's approach is as follows:

- INPUT will use materials in its possession describing market requirements, directions and competitor offerings.

- For this project, INPUT will take advantage of the knowledge and experience of its staff. expects to involve 4-6 of its senior staff in the project.

2

- INPUT will rely on IBM to supply the following information about IBM services and plans, in order to improve efficiency and reduce duplication of effort on the project:

    - *Current IBM product offerings.* INPUT will use the material in IBM's Web Page in the first instance, but will also rely on IBM to review this material and supplement it with additional information.

    - *Planned IBM offerings.* INPUT recognizes that this may be sensitive and will observe all non-disclosure requirements.

    - *Offerings considered and rejected in the past 12 months.* INPUT may choose to revisit these. In any event, understanding the rationale for rejection will provide INPUT with additional insight on tactical feasibility.

    - INPUT does not require extensive description of services: A descriptive title and up to two paragraphs will normally suffice.

In a few cases, INPUT may obtain information about competitive service offerings in order to make a recommendation.

INPUT will make recommendations on potential service offerings. INPUT's report will contain:

(a) Recommended Services

- A short (1-2 paragraph) description of the service offering
- Its relation (if any) to current IBM offerings
- Comments on competitive offerings
- Observations on market potential

(b) Services not recommended at this time

- This will be a listing of services not recommended with a brief rationale for each service (e.g., not large enough; too long to develop [not tactical], too much competition, etc.)

INPUT plans to take advantage of the knowledge of its senior staff by organizing the steps of the project as follows:

Day	Activity
1	IBM and INPUT meet to review IBM's current service offerings. (INPUT expects to receive the bulk of the necessary information during this meeting)
2	INPUT prepares a concise summary of IBM services (i.e., heading plus 1-2 paragraphs); IBM forwards additional materials to INPUT as required.
3	Material distributed to INPUT task force. Task Force members review.
6	Task Force members submit recommendations for new services (covering the headings that will occur in the report described above
8	Suggestions centrally reviewed, collated, summarized and returned to Task Force members
10	Task Force head reviews consolidated suggestions with each member
12	Report submitted to IBM

IV. FEES

INPUT's professional fee for this project is $19,000. One-half of this fee ($9,500) is due and payable upon authorization. The remainder of the fee plus out-of-pocket expenses is due upon the submission of the report. Out-of-pocket expenses (primarily travel, telephone and report production) will be billed at cost and are not expected to exceed $500.

This proposal will remain valid for thirty days, unless extended in writing.

VI. AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY: ACCEPTED BY:
IBM   INPUT

_____   _____
Name   Name

_____   _____
Title   Title

_____   _____
Date   Date

INPUT IT Intelligence Services

March 14, 1996

John Fisher
IBM Services
Somers, NY

Via fax 914-766-7117   Page 1 of 5

Dear John:

Attached is a draft of the proposal on "Assessment of IBM's Optimal Set of Service Offerings". Please give me any feedback on how it can be improved.
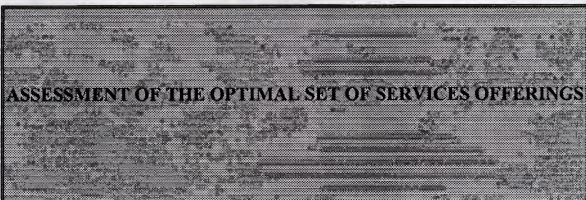
Sincerely,

Thomas O'Flaherty
Vice President

Attachment

PROPOSAL

ASSESSMENT OF THE OPTIMAL SET OF SERVICES OFFERINGS

Submitted to

IBM

March 14, 1996

Prepared by

INPUT

Atrium at Glenpointe
400 Frank W. Burr Boulevard
Teaneck, NJ 07666

201-801-0050
Fax: 201-801-0441

PROPOSAL

CHANGES IN CUSTOMER REQUIREMENTS FOR SERVICES IN THE NEXT THREE YEARS

Submitted to

IBM

March 20, 1996

Prepared by

INPUT

CHANGES IN CUSTOMER REQUIREMENTS FOR SERVICES IN THE NEXT THREE YEARS

I. OBJECTIVES

For planning its future services, IBM needs to understand how worldwide customer requirements for services will be changing over the next three years.

II. SCOPE

The study will identify how changes in customers' requirements will affect their needs for IT-related services. The study will assess the market from the customer's viewpoint:

- INPUT will be especially looking for significant changes in requirements that may

  - Increase demand for new types of services

  - Decrease demand for existing services

- The new requirements and services may result in different market segmentation and service components than vendors (including IBM) deal with now.

The study will assess whether individual opportunities are attractive or unattractive. Some "unattractive" services will be included where offerings that are now attractive may less so in the future (e.g., due to falling demand or falling margins)

INPUT believes that by the time the study is completed that over 100 different services will have been considered and assessed.

The scope of INPUT's work will be determined by the following:

- The breadth of service categories covered

- The "stages of maturity" of the services considered

- The evaluation and assessment process used

- The presentation of results

Service Categories

INPUT's will group and categorize services from the standpoint of evolving customer needs. These needs will be primarily driven by customers' business needs and applications. The resulting "map" of services may look different than that currently used by IBM (or, in some cases, by INPUT).

INPUT's analysis will cover all <u>current</u> service categories as well. These categories are shown in Exhibit 1.

Exhibit 1: Major Service Categories

- Systems integration

- Consulting

- Other professional services

- Outsourcing/processing services

- Business function support/outsourcing (where there is a significant IT component)

- Software support (packaged/custom)

- Technical support services

- Communications transport

- Network-based services

- Customer services (hardware maintenance)

- Other support services

INPUT is assuming that the analysis will be limited to IT-related business areas. INPUT's analysis will comprehensively focus on the needs of business, especially large businesses. INPUT will examine the needs of individuals-as-consumer to the extent that these needs could

- Realistically be met by IBM; or,

- Are related to a primary business focus of IBM. (Example: Comprehensive Internet directory services might be used primarily by individuals but would be a necessary precondition for controlling business-related directory services.)

Stages of Service Maturity

INPUT believes the analysis, recommendations and actions may be quite different depending on how mature a service opportunity is. Exhibit 2 is a framework for assessing maturity.

Exhibit 2: Stages of Services Maturity

1. *Established services in mature markets* (e.g., data center outsourcing)

- Identifiable services must already be a significant size to qualify for inclusion. The exact cutoff point will be discussed with IBM, but INPUT believes that any service market under $100 million in 1999 should be examined critically for inclusion.

- Obviously, high growth would be a positive factor for smaller markets, although such services would be likely to be classified as part of an emerging market.

2. *Services in emerging markets* (e.g., information intermediaries)

- Current size is less important than expected growth.

- Some services may be mature in some markets (often geographic) and emerging in others

- A service here should serve a significant market by 1999. INPUT assumes that a $100 million cut-off will be used here also.

3. *Potential services* (not yet offered, but feasible; e.g., personalized information systems for mass transit customers)

- INPUT expects that such services would, at best, generally be in the "emerging" category in three years.

- This type of service will require market planing analysis as well as technical and market resources during the next three years. Therefore, services in this category should also be included in the analysis.

- INPUT does not believe that this project will identify more than a fraction of such potential services, since potential services will be identified largely as a byproduct of performing analysis for the other two categories. [INPUT could conduct this kind of "blue sky" analysis as part of a separate project.]

3

Evaluation Criteria

INPUT proposes that the following criteria be used to assess service opportunities:

- Market size (as discussed above): 1996 and 1999

    - Factors behind significant growth

    - Risk factors affecting growth (especially high growth areas)

- Relative margins; likely changes between 1996 and 1999

- General competitive environment and leading competitors, including expected shifts in the next three years. (Note: for this project, INPUT will not provide market share estimates unless the competitive environment appears critical for assessment purposes.)

- Geographic factors: 1996 and 1999 [INPUT will use IBM's four principal worldwide areas.]

INPUT and IBM may agree that these criteria should be modified and/or that other evaluation criteria should added.

Assessments will be, essentially, a weighting of the evaluation criteria. This will not, however, be a mechanical process, but will call upon all of INPUT's market knowledge and judgment.

Assessments will conclude that a service is an

- Attractive market

- Unattractive market

- Indeterminable at this time (INPUT expects this category to be small and made up of special cases.)

Attractiveness may be presented as a "yes/no" or on a scale.

In a some instances, a market will be generally attractive, but INPUT may believe the market will be less attractive for IBM. In these situations, INPUT will provide detail why it believes this to be the case.

Presentation of Results

A profile will be prepared for each service opportunity assessed. The profile will contain the elements shown in Exhibit 3 below (items are preliminary).

Exhibit 3: Service Profile Elements (Preliminary)

- Service opportunity name

- Description

- Related opportunities

- Size (range): 1996 and 1999

- Growth probability (where applicable)

- Margin (range): 1996 and 1999

- Competitive environment

- Stage of maturity

- Attractiveness

- Risk factors

The amount of detail presented should depend, in INPUT's opinion, on how "obvious" the conclusions are.

- Confirming that an established market is attractive will generally require less detail than to conclude that an established market is not attractive; such confirmation will require on the order of 1-2 pages of summary information.

- Where INPUT concludes that an established market is less attractive, more analysis will generally be required to support this type of conclusion; the presentation of this type of service could extend to 5-10 pages.

- Attractive emerging markets will receive more analysis because of overall lack of familiarity with the service and/or possible debate over the extent of the opportunity.

- All things being equal, less attractive emerging markets will receive less analysis. (In cases where IBM is planning or contemplating investment, there can be more extensive analysis performed.)

- Potential services will generally receive less attention other than being noted by INPUT as deserving subsequent analysis. By their nature, potential services will be difficult to analyze in depth based on current information.

Exhibit 4, below, summarizes the above points on level of detail.

Exhibit 4:   Level of Detail Expected
               (Expressed as pages of summary)

Stage of Maturity	Conclusion: Attractive	Conclusion: Unattractive
Established	1-2 pages	5-10 pages
Emerging	5-10 pages	1-2 pages
Possible	1-4 pages	Not covered

Profiles will be supplied in hardcopy and softcopy form. The information will be summarized in a number ways (e.g., by size, by stage of maturity, by attractiveness, etc.)

III. METHODOLOGY AND CONDUCT OF THE WORK

General Approach

INPUT analysis will consist of two "directions" of analysis:

- "Top Down", that is, examining existing categories of services to describe how they will change.

- "Bottom Up", that is, identifying new business needs that drive specific kinds of services

These two approaches will be integrated in INPUT's analysis and presentation.

B. Sources

INPUT will rely on the following sources to conduct this project:

- INPUT will use materials in its possession describing market requirements, directions and competitor offerings.

- For this project, INPUT will take advantage of the knowledge and experience of its staff and expects to involve at least six of its senior staff during the course of the project.

- INPUT does not expect to conduct formal primary research for this project.

  - INPUT may investigate some service offerings of other vendors where required in order to better understand market dynamics and potential. as well as entry requirements.

  - INPUT may also conduct informal research in developing additional information on emerging and potential markets.

A. Conduct of the Work

(1) INPUT will initially meet with IBM staff to review and refine the items discussed in Scope, above.

(2) INPUT will prepare a first level analysis which will include

- A preliminary set of profiles

    - In many cases, information will be incomplete or estimated, but will be sufficient to form preliminary conclusions

    - INPUT will profile all current or planned IBM services that it has knowledge of (INPUT will have considerable knowledge, based on the work it will have performed on tactical service opportunities.)

- Issues to be discussed with IBM

(3) INPUT and IBM will meet to review its preliminary analysis with IBM. At the end of this worksession it may be agreed to repeat parts of steps 2 and 3 again.

(4) INPUT will prepare a report covering all points raised in "Scope".

This process will take approximately 12 weeks. (See Section IV, Schedule.)

IV. SCHEDULE

INPUT expects to have a preliminary analysis to review with IBM by week 6 of the project, with a final report prepared in week 12.

Week	Activity
1	Project kick-off meeting with IBM
2-4	INPUT performs initial "Top Down" and "Bottom Up" analysis
5	Analysis assembled and integrated; preliminary recommendations developed
6	Review of preliminary analysis with IBM
7-9	Additional analysis, research and refinement
10	Integrate analysis and recommendations
11	Present analysis and recommendations to IBM
12	Prepare final report and submit to IBM

V.   FEES

INPUT's professional fee for this project is $73,000. One-half of this fee ($36,500) is due and payable upon authorization. The remainder of the fee plus out-of-pocket expenses is due upon the submission of the report. Out-of-pocket expenses (primarily travel, telephone and report production) will be billed at cost and are not expected to exceed $7,000.

This proposal will remain valid for thirty days, unless extended in writing.

VI.   AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY: ACCEPTED BY:
IBM   INPUT

_____   _____
Name   Name

_____   _____
Title   Title

_____   _____
Date   Date

INPUT®

FAX TRANSMITTAL FORM

Date: March

To: Name: Wilson

Tel./Location: _____

Co.: _____

Fax No: _____

From: Name: Tom

Subject: Revised IBM Proposal

Confidential: Y / N

Urgent: Y / N

Page: 1 of 9

File: Chron

Contact

Other:

- The previous draft I sent on Friday ("Assessment of IBM's Optimal Set of Service Offerings") turned out to be off-base — doesn't matter why)

- Attached is something much closer Please review this. I will sent the Schedule page soon after you receive this, which will also provide an estimate of days.

- Like to discuss soon — I promised John Fisher I would send it today.

ADM 341/05 8/03

INPUT®

400 Frank W. Burr Blvd.
Teaneck, NJ 07666
Tel. (201) 801-0050
Fax (201) 801-0441

FAX TRANSMITTAL FORM

Date: Mar 20

To: Name: Wilson

Tel./Location: _____

Co.: _____

Fax No: _____

From: Name: Tom

Subject: Schedule part of Section
of IBM Proposal

Confidential: Y / N
Urgent: Y / N

Page: 1 of 2

File: Chron
Contact
Other:

+ Time/$ estimates

(You would get 1 or more paid
trips to East Coast out of
this — + me to West Coast —
therefore, I am not including
our personal travel time as part of
professional fee)

ADM 341/05 8/93

A. Conduct of the Work

(1) INPUT will initially meet with IBM staff to review and refine the items discussed in Scope, above.

(2) INPUT will prepare a first level analysis which will include

- A preliminary set of profiles

  - In many cases, information will be incomplete or estimated, but will be sufficient to form preliminary conclusions

  - INPUT will profile all current or planned IBM services that it has knowledge of (INPUT will have considerable knowledge, based on the work it will have performed on tactical service opportunities.)

- Issues to be discussed with IBM

(3) INPUT and IBM will meet to review its preliminary analysis with IBM. At the end of this worksession it may be agreed to repeat parts of steps 2 and 3 again.

(4) INPUT will prepare a report covering all points raised in "Scope".

This process will take approximately 12 weeks. (See Section IV, Schedule.)

IV. SCHEDULE

INPUT expects to have a preliminary analysis to review with IBM by week 6 of the project, with a final report prepared in week 12.

ESDs

Week	Activity	
1	Project kick-off meeting with IBM	2
2-4	INPUT performs initial "Top Down" and "Bottom Up" analysis	20
5	Analysis assembled and integrated; preliminary recommendations developed	4
6	Review of preliminary analysis with IBM	2
7-9	Additional analysis, research and refinement	10
10	Integrate analysis and recommendations	4
11	Present analysis and recommendations to IBM	2
12	Prepare final report and submit to IBM	3

Travel

WH in NY
TOP in Cal

WH in NY??
TOP in Cal??

WH in NY?

47 x 16 =
Ø 70k
(price in draft you have is wrong)

8

ASSESSMENT OF IBM'S OPTIMAL
SET OF SERVICE OFFERINGS

I.   OBJECTIVES

IBM wishes a knowledgeable, objective third party assess what IBM's optimal set of service offerings should be.

II.   SCOPE

INPUT will identify what INPUT believes should be the optimal set of services offerings. INPUT's analysis will take into account the following factors:

- The service may or may not be offered (or planned to be offered) by IBM. The service should be one that it "makes sense" for IBM to offer, given the totality of IBM's current offerings, customer sets and direction.

- The service should have worldwide potential, although the service may initially be more suitable or have more potential in a particular geography.

- The service may be currently offered by other firm(s), or may be a potentially attractive service not currently being offered.

- The service should have the potential to meet IBM's revenue and profit objectives, although not necessarily at first. IBM should have a reasonable chance of penetrating the market in cases where the service, or a similar service, is already being offered.

- Where a service has not already been sized, INPUT will indicate the potential size in order of magnitude terms.

- IBM need not have capabilities currently to offer or support such a service. In which case, the analysis will sketch out the means by which IBM could enter the market.

- The time frame for the analysis is 1997 and 1998. (Offerings for the next 12 months --approximately -- will have been considered during the work that INPUT will have conducted for IBM on short term, tactical opportunities.)

- In the course of the analysis, INPUT may recommend that some current offerings be modified, priorities changed, the delivery structure changed or, possibly, the service dropped as part of the overall strategy.

INPUT expects that the following issues will receive only tangential coverage in the project:

- There will be little analysis on the exact relationships between IBM's services and product groups in terms of marketing, sales, organization structure, etc. (The fact that IBM is a large seller of hardware and software products will be taken into account in recommending particular services.)

- INPUT will not make comments or recommendation on internal organization and delivery issues. INPUT will take delivery, <u>from the customer's standpoint</u>, into account.

IBM wishes to have this project completed by July 31, 1996.

III. METHODOLOGY AND CONDUCT OF THE WORK

INPUT's overall approach to conducting this project is made up of the following components:

- INPUT will use materials in its possession describing market requirements, directions and competitor offerings.

- INPUT will use as a baseline for current and planned IBM services the output of the work being performed by INPUT, "Identification of Tactical Services Opportunities".

- For this project, INPUT will take advantage of the knowledge and experience of its staff. and expects to involve 4-6 of its senior staff during the course of the project.

- INPUT does not expect to conduct formal primary research for this project. INPUT does expect to investigate some service offerings of other vendors where required in order to better understand market dynamics and potential. as well as entry requirements.

The work for the project will be conducted as follows:

1. INPUT will initially prepare a "template" of the services that INPUT believes IBM should offer in terms of customer need. This template will take into account the issues under Section II, "Scope".

   INPUT will make a "rough fit" of current and planned IBM services into the template.

   INPUT will note situations where new services may be offered, or existing services may be modified, expanded or contracted. (During this stage INPUT will not make specific recommendations.)

2. After having prepared the template and made a rough fit of services present and absent, INPUT will review its findings with IBM.

3. In order to refine the initial "rough fit" of services, INPUT will require additional information from IBM in such areas as exact size, composition, capabilities and performance of selected services.

   After receiving this information, INPUT will prepare full draft analyses and recommendations.

4. INPUT will review its draft analysis and recommendations with IBM and receive IBM feedback on completeness and accuracy.

5. INPUT will then prepare a final report containing its analyses and recommendations. The report will be delivered in both hardcopy and softcopy formats and will address all the issues in Scope.

The expected schedule for the project is shown in Section IV.

IV. SCHEDULE

INPUT expects to have a draft analysis and recommendations for IBM's review by the eighth week of the project and a final report by the tenth week.

Week	Activity
1-3	INPUT develops a "template" of IBM services and prepares a "rough fit" of current/planned IBM offerings
4	INPUT reviews template and "rough fit" with IBM
4-5	INPUT receives additional services information from IBM
6-7	INPUT prepares draft analysis
8	INPUT reviews draft analysis and recommendations with IBM
9-10	INPUT prepares report containing analysis and recommendations

INPUT can begin work within one week of authorization.

V. FEES

INPUT's professional fee for this project is $45,000. One-half of this fee ($22,500) is due and payable upon authorization. The remainder of the fee plus out-of-pocket expenses is due upon the submission of the report. Out-of-pocket expenses (primarily travel, telephone and report production) will be billed at cost and are not expected to exceed $4,000.

This proposal will remain valid for thirty days, unless extended in writing.

V. AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY: ACCEPTED BY:
IBM   INPUT

_____   _____
Name   Name

_____   _____
Title   Title

_____   _____
Date   Date

ASSESSMENT OF IBM'S OPTIMAL
SET OF SERVICE OFFERINGS

I.   OBJECTIVES

IBM wishes a knowledgeable, objective third party assess what IBM's optimal set of
service offerings should be.

II.   SCOPE

INPUT will identify what INPUT believes should be the optimal set of services offerings.
INPUT's analysis will take into account the following factors:

- The service may or may not be offered (or planned to be offered) by IBM. The
  service should be one that it "makes sense" for IBM to offer, given the totality of
  IBM's current offerings, customer sets and direction.

- The service should have worldwide potential, although the service may initially be
  more suitable or have more potential in a particular geography.

- The service may be currently offered by other firm(s), or may be a potentially
  attractive service not currently being offered.

- The service should have the potential to meet IBM's revenue and profit objectives,
  although not necessarily at first. IBM should have a reasonable chance of
  penetrating the market in cases where the service, or a similar service, is already
  being offered.

- Where a service has not already been sized, INPUT will indicate the potential size
  in order of magnitude terms.

- IBM need not have capabilities currently to offer or support such a service. In
  which case, the analysis will sketch out the means by which IBM could enter the
  market.

- The time frame for the analysis is 1997 and 1998. (Offerings for the next 12
  months --approximately -- will have been considered during the work that INPUT
  will have conducted for IBM on short term, tactical opportunities.)

- In the course of the analysis, INPUT may recommend that some current offerings
  be modified, priorities changed, the delivery structure changed or, possibly, the
  service dropped as part of the overall strategy.

CHANGES IN THE WORLDWIDE SERVICES MARKET OVER THE NEXT THREE YEARS

I. OBJECTIVES

For planning its future services, IBM needs to understand how worldwide market requirements for services will change over the next three years.

II. SCOPE

The scope of INPUT's work will be determined by the following:

☐ Service categories covered

☐ Stages of service maturity

☐ Evaluation criteria

☐ Assessment of individual service opportunities

☐ Presentation of results

Service Categories

INPUT will assess between 100 - 150 services that fall into the following major service categories, as shown in Exhibit 1. All of these services will contain a significant IT component.

Exhibit 1: Major Service Categories

☐　　Systems integration

☐　　Consulting

☐　　Other professional services

☐　　Outsourcing/processing services

☐　　Business support services (where there is a significant IT component)

☐　　Software support (packaged/custom)

☐　　Technical support services

☐　　Communications transport

☐　　Network-based services

☐　　Customer services (hardware maintenance)

☐　　Other support services　　*→ OUTSOURCING PROCESS —*

The listing of services in Exhibit 1 is intended to show the boundaries of the analysis:

☐ INPUT may not recommend that IBM consider some of these services. (This point is discussed further below.)

☐ In its analysis and presentation INPUT may organize and structure this list somewhat differently.

<u>Stages of Service Maturity</u>

From an opportunity standpoint, INPUT will place each services into one of the following stages of maturity, as shown in Exhibit 2 below.

Exhibit 2: Stages of Services Maturity

1. Established services in mature markets (e.g., data center outsourcing)

☐ Identifiable services must already be a significant size to qualify for inclusion. The exact cutoff point will be discussed with IBM, but INPUT believes that any service market under $100 million should be examined critically for inclusion.

☐ Obviously, high growth would be a positive factor for smaller markets, although such services would be likely to be classified as part of an emerging market.

1. Services in emerging markets (e.g., information intermediaries)

☐ Current size is less important than expected growth.

☐ Some services may be mature in some markets (often geographic) and emerging in other. INPUT assumes that this will be an important consideration for IBM.

☐ A service here should serve a significant market in three years, that is, using a cut-off point similar to the $100 million for established services.

1. Potential services (not yet offered, but feasible; e.g., personalized information systems for mass transit customers)

☐ INPUT expects that such services would, at best, generally be in the "emerging" category in three years.

☐ However, these types of services will require market analysis as well as technical and market resources during the next three years.

☐ INPUT does not believe that this project will identify more than a fraction of such potential services in its analysis. Potential services will be identified in the course of performing analysis in the other two categories.

<u>Evaluation Criteria</u>

INPUT will apply the following criteria to individual service opportunities:

☐ Size (as discussed above): 1996 and 1999

    ☐ Factors behind significant growth

    ☐ Risk factors affecting growth (especially high growth areas)

☐ Relative margins; likely changes between 1996 and 1999

☐ General competitive environment and leading competitors, including expected shifts in the next three years. (Note: for this project, INPUT will not provide market share estimates unless the competitive environment appears critical for assessment purposes.)

☐ Geographic focus: 1996 and 1999

INPUT and IBM may agree that these criteria should be modified and/or that other evaluation criteria should added.

<u>Assessment of Individual Service Opportunities</u>

Assessments will be, essentially, a weighting of the evaluation criteria. This will not, however, be a mechanical process, but will call upon all of INPUT's market knowledge and judgment.

Assessments will conclude that a service is an

☐ Attractive market

☐ Unattractive market

☐ Indeterminable at this time (INPUT expects this category to be small and made up of special cases.)

Attractiveness may be presented as a "yes/no" or on a scale.

In a some instances, a market will be generally attractive, but INPUT may believe the market will be less attractive for IBM. In these situations, INPUT will provide detail why it believes this to be the case. (INPUT does not promise that it can identify all such situations.)

<u>Presentation of Results</u>

A profile will be prepared for each service opportunity assessed. The profile will contain the elements shown in Exhibit 3 below (items are preliminary).

Exhibit 3: Service Profile Elements (Preliminary)

☐ Service opportunity name

☐ Description

☐ Related opportunities

☐ Size (range): 1996 and 1999

☐ Growth probability (where applicable)

☐ Margin (range): 1996 and 1999

☐ Competitive environment

☐ Stage of maturity

☐ Attractiveness

☐ Risk factors

The amount of detail presented should depend, in INPUT's opinion, on how "obvious" the conclusions are.

☐ Confirming that an established market is attractive will generally require less detail than to conclude that an established market is not attractive; such confirmation will require on the order of 1-2 pages of summary information.

☐ Where INPUT concludes that an established market is less attractive, more analysis will generally be required to support this type of conclusion; the presentation of this type of service could extend to 5-10 pages.

☐ Attractive emerging markets will receive more analysis because of overall lack of familiarity with the service and/or possible debate over .the extent of the opportunity.

□
□ All things being equal, less attractive emerging markets will receive less analysis. (In cases where IBM is planning or contemplating investment, there can be more extensive analysis performed.)

□ Potential services will generally receive less attention other than being noted by INPUT as deserving subsequent analysis. By their nature, potential services will be difficult to analyze in depth based on current information.

Exhibit 4, below, summarizes the above points on level of detail.

Exhibit 4: Level of Detail Expected
(Preliminary; expressed in pages of summary)

Stage of Maturity	Conclusion: Attractive	Conclusion: Unattractive
Established	1-2 pages	5-10 pages
Emerging	5-10 pages	1-2 pages
Possible	1-4 pages	Not covered

Profiles will be supplied in hardcopy and softcopy form. The information will be summarized in a number ways (e.g., by size, by stage of maturity, by attractiveness, etc.)

III. METHODOLOGY AND CONDUCT OF THE WORK

<u>General Approach</u>

INPUT will rely on the following sources to conduct this project:

☐ INPUT will use materials in its possession describing market requirements, directions and competitor offerings.

☐ For this project, INPUT will take advantage of the knowledge and experience of its staff. and expects to involve at least six of its senior staff during the course of the project.

☐ INPUT does not expect to conduct formal primary research for this project.

    ☐ INPUT may investigate some service offerings of other vendors where required in order to better understand market dynamics and potential. as well as entry requirements.

    ☐ INPUT may also conduct informal research in developing additional information on emerging and potential markets.

<u>Conduct of the Work</u>

(1) INPUT will initially meet with IBM staff to review and refine the items discussed in Scope, above.

(2) INPUT will prepare a first level analysis which will include

☐ A preliminary set of profiles

    ☐ In many cases, information will be incomplete or estimated, but will be sufficient to form preliminary conclusions

    ☐ INPUT will profile all current or planned IBM services that it has knowledge of (INPUT will have considerable knowledge, based on the work it will have performed on tactical service opportunities.)

☐ Issues to be discussed with IBM

(3) INPUT and IBM will meet to review its preliminary analysis with IBM. At the end of this worksession it may be agreed to repeat parts of steps 2 and 3 again.

(4) INPUT will prepare a report covering all points raised in "Scope".

This process will take approximately _____.

IV. FEES

INPUT's professional fee for this project is $_____. One-half of this fee ($_____) is due and payable upon authorization. The remainder of the fee plus out-of-pocket expenses is due upon the submission of the report. Out-of-pocket expenses (primarily travel, telephone and report production) will be billed at cost and are not expected to exceed $_____

This proposal will remain valid for thirty days, unless extended in writing.

VI. AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY: ACCEPTED BY:
IBM   INPUT

_____   _____
Name   Name

_____   _____
Title   Title

_____   _____
Date   Date

INPUT expects that the following issues will receive only tangential coverage in the project:

- There will be little analysis on the exact relationships between IBM's services and product groups in terms of marketing, sales, organization structure, etc. (The fact that IBM is a large seller of hardware and software products will be taken into account in recommending particular services.)

- INPUT will not make comments or recommendation on internal organization and delivery issues. INPUT will take delivery, <u>from the customer's standpoint</u>, into account.

IBM wishes to have this project completed by July 31, 1996.

III. METHODOLOGY AND CONDUCT OF THE WORK

INPUT's overall approach to conducting this project is made up of the following components:

- INPUT will use materials in its possession describing market requirements, directions and competitor offerings.

- INPUT will use as a baseline for current and planned IBM services the output of the work being performed by INPUT, "Identification of Tactical Services Opportunities".

- For this project, INPUT will take advantage of the knowledge and experience of its staff. and expects to involve 4-6 of its senior staff during the course of the project.

- INPUT does not expect to conduct formal primary research for this project. INPUT does expect to investigate some service offerings of other vendors where required in order to better understand market dynamics and potential. as well as entry requirements.

The work for the project will be conducted as follows:

1. INPUT will initially prepare a "template" of the services that INPUT believes IBM should offer in terms of customer need. This template will take into account the issues under Section II, "Scope".

   INPUT will make a "rough fit" of current and planned IBM services into the template.

   INPUT will note situations where new services may be offered, or existing services may be modified, expanded or contracted. (During this stage INPUT will not make specific recommendations.)

2. After having prepared the template and made a rough fit of services present and absent, INPUT will review its findings with IBM.

3. In order to refine the initial "rough fit" of services, INPUT will require additional information from IBM in such areas as exact size, composition, capabilities and performance of selected services.

   After receiving this information, INPUT will prepare full draft analyses and recommendations.

4. INPUT will review its draft analysis and recommendations with IBM and receive IBM feedback on completeness and accuracy.

5. INPUT will then prepare a final report containing its analyses and recommendations. The report will be delivered in both hardcopy and softcopy formats and will address all the issues in Scope.

The expected schedule for the project is shown in Section IV.

IV. SCHEDULE

INPUT expects to have a draft analysis and recommendations for IBM's review by the eighth week of the project and a final report by the tenth week.

Week	Activity
1-3	INPUT develops a "template" of IBM services and prepares a "rough fit" of current/planned IBM offerings
4	INPUT reviews template and "rough fit" with IBM
4-5	INPUT receives additional services information from IBM
6-7	INPUT prepares draft analysis
8	INPUT reviews draft analysis and recommendations with IBM
9-10	INPUT prepares report containing analysis and recommendations

INPUT can begin work within one week of authorization.

V. FEES

INPUT's professional fee for this project is $45,000. One-half of this fee ($22,500) is due and payable upon authorization. The remainder of the fee plus out-of-pocket expenses is due upon the submission of the report. Out-of-pocket expenses (primarily travel, telephone and report production) will be billed at cost and are not expected to exceed $4,000.

This proposal will remain valid for thirty days, unless extended in writing.

V. AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY: ACCEPTED BY:
IBM   INPUT

_____   _____
Name   Name

_____   _____
Title   Title

_____   _____
Date   Date

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